



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

**HELD ON
Tuesday, May 12, 2015
10:30 A.M., Arizona Time**

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:30 A.M.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Dr. Richard Jacob

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the March 10, 2015 Minutes of the OAC Public Meeting

Motion: Dr. Richard Jacob moved to approve the minutes of the March 10, 2015 OAC meetings. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the Status of the Governmental Accounting Standards Board (GASB) 67 & 68 Reporting for Employers

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, provided a brief introduction stating that a major milestone is fast approaching with regard to the GASB 68 roll out. The ASRS is anticipating a reaction from employers to the changes and are preparing to be proactive with regard to the expected negative reactions. Mr. Guarino turned the discussion over to Ms. Nancy Bennett, Chief Financial Officer, who provided the update to the Committee with regard to GASB 67 & 68 changes.

Ms. Bennett advised the Committee the changes to GASB 67 were implemented by the ASRS in its June 30, 2014 financial statements and the GASB 68 changes will be reflected in the ASRS employers' June 30, 2015 financial statements. One of the biggest changes to GASB 68 is employers will find a pension liability reported on their financial statements that has not previously been required. Although this new reported liability is a change in financial accounting requirements rather than financial liabilities, it will likely be perceived as a negative development. There could be negative consequences, such as effects on bond ratings. It may

also cause questions about the merits of defined benefit plans. The ASRS will be providing employers a tool kit with the GASB 68 information that the ASRS thinks will be helpful.

Ms. Bennett reviewed, in depth, the following:

- GASB 67 & 68 Preparation
 - Why the Change?
 - What is Changing?
 - What Have We [ASRS] Been Doing?
- ASRS Recommended
 - Collective Net Pension Liability Calculation
 - Employer Proportionate Share Calculation – ASRS recommendation
- GASB 68
 - Information Provided to Employers by ASRS
 - Example Schedule of Pension Amounts by Employer
 - Example Schedule of Employer Allocations
- Census Data Audit
 - 06/30/14 Measurement Date
- Accounting vs. Funding
 - GASB 68 Methodology
 - ASRS Funding Methodology

Ms. Bennett responded to questions from the Committee, discussed the implementation process, possible outcomes, risks and the ASRS approaches.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Fiscal Year 2016/2017 Audit Plan

Mr. Bernard Glick, Chief Internal Auditor, Internal Audit Division (IAD), presented the Audit Plan for the fiscal year 2016/2017 to the Committee. Mr. Glick explained that the plan is based on an ongoing risk assessment that is being conducted by executive and senior management under the oversight of the OAC and in collaboration with the IAD. The plan also includes audits of areas that haven't been audited in the past five years, which will include management/administration fees; procurement and bid process; and web services, social media post implementation. Additionally in the plan are audits of areas requiring annual review due to materiality or governance requirements, which will include Investment Management Division compliance and fraud hotline.

Motion: Dr. Richard Jacob moved to accept the Biennial Audit Plan and forward the plan to the full ASRS Board for consideration. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

5. Review of Recently Conducted Audits

Mr. Glick reviewed the following audits conducted by the IAD.

- **Fort Thomas Unified School District – Employer Audit**

The IAD had four findings from the Fort Thomas Unified School District audit. The employer agreed with the findings and IAD's recommendations.

- **New Retiree and Survivor Benefits – ASRS Processes**

The IAD had three findings from the internal audit. Mr. Glick stated that all the issues have either been resolved or are in the process of being resolved.

6. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented the Quarterly Internal Audit report. The IAD currently has two audits that have not yet been performed and one that is almost complete. The Data Security audit is approximately 75% complete. Mr. Glick expects the Qualified Domestic Relations Orders (QDRO) audit to be completed by the end of the year but the completion of the Software Licensing audit is unknown at this time. Mr. Glick advised the Committee he has already begun receiving GASB 68 materials for next year and in order for this information to be included on the Comprehensive Annual Financial Report in September, he will need to begin the GASB audit now rather than wait until July when it is typically scheduled.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Dental Benefits Program Request for Proposal (RFP)

Mr. Patrick Klein, Assistant Director, External Affairs, Ms. Shireen Boone, ADOA, Chief Procurement Officer, and Mr. Russ Levine, Procurement and Budget Manager, were present to address the Committee on this topic and answer any questions. Mr. Klein provided the Committee with a summary to include the following timelines:

- February 23, 2015 – RFP issued to 208 dental providers.
- March 31, 2015 – Four dental providers submitted proposals – Assurant Employee Benefits, Delta Dental of Arizona, Metropolitan Life Insurance Company and United Concordia. All four providers submitted offers for providing indemnity dental plans and one provider submitted an offer for providing a prepaid dental plan.
- Evaluation Committee assembled consisting of staff members and members of the Health Insurance Advisory Committee who assist occasionally with evaluating the types of programs the ASRS offers.
- Four criteria were considered during the evaluation: cost, quality/value of the plan, expertise, experiences and resources provided, and the implementation of the program.
- May 4, 2015 – Best and Final Offers from each provider were provided.

Motion: Dr. Richard Jacob moved to go into executive session to discuss confidential information regarding the RFP. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

The Committee convened to Executive Session at 11:26 A.M.

The Committee reconvened to Regular Session at 11:51 A.M.

Prior to making his motion, Dr. Jacob expressed that he would move the recommendation forward, however, will decide how he will vote once this is presented to the Board.

Motion: Dr. Richard Jacob moved to accept the recommendation of the Evaluation Committee on the ASRS Retiree Dental Benefits Program Request for Proposals for the purpose of moving this recommendation to the Board for approval. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

8. Review, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance and Health Benefit Supplement Programs

Mr. Guarino provided a brief introduction by stating the future and status of health care programs is on the list of strategic objectives for fiscal year 2015 and the ASRS felt it was appropriate to discuss the topic with the Committee prior to being presented to the Board.

Mr. Paul Matson, Director, opened the discussion by stating that this topic may not be covered in its entirety at this meeting due to time constraints, therefore, the Committee will not be expected to draw any conclusions today. Mr. Matson felt the best approach was to provide the Committee with the background information today, which will enable the Committee to finalize the discussion and make decisions/recommendations at the next OAC meeting. Mr. Matson asked the Committee to consider the following during today's discussion and how the information that Mr. Klein will be presenting fits into one of these four categories:

- Issues
 1. Reaffirm or not the ASRS program goals: Affordability, Accessibility, and Meaningful
 2. Whole Case Underwriting & Resulting Cross Subsidizations: Discuss future direction
 3. Direction of non-Medicare and Medicare coverage
 4. Retrospective Rate Adjustment Agreement Fund: Current balance, utilization options, allocation options

Mr. Klein invited Mr. Tim Upson and Ms. Denise Jewell, Mercer Consultants and Mr. Dan Cadriel of UnitedHealthcare to the table to assist in responding to questions if necessary. Mr. Klein provided the background as follows:

- Programs Offered:
 1. Current ASRS programs offered by coverage: medical, dental, vision, WellCard
 2. Current ASRS programs offered by group: Medicare and non-Medicare programs
 3. Current ASRS program designs: benefits, premiums, and copayments
 4. Current Health Benefit Supplement levels
 5. Current and Projected Funded Status
 6. Current and Projected Contribution Rates
- Landscape & Impacts
 1. Federal Mandated Arizona Exchange: benefit designs and premiums compared to the ASRS program
 2. ADOA Programs: benefit designs and premiums compared to the ASRS program
 3. Marketplace cost trends
 4. Marketplace product development and other dynamics

9. Request for Future Agenda Items

The ASRS Retiree Health Insurance and Health Benefit Supplement Programs.

10. Call to the Public

There were no members of the public in Phoenix who requested to speak. There were no members of the public in Tucson.

11. Adjournment

Motion: Dr. Richard Jacob moved to adjourn the meeting at 12:35 p.m. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer